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FINANCIAL SITUATION OF UNIDO

Intersessional open-ended discussion group to study applicable measures to expedite timely payment of assessed contributions

Report of the Chairman
(H.E. Mr. S.K. Lee, Republic of Korea)

Summary

Reports on the discussions of the open-ended group on applicable measures to expedite timely payment of assessed contributions.

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Introduction

1. In decision IDB.15/Dec.4, paragraph (d), the Industrial Development Board decided to continue the work of the intersessional open-ended discussion group, open to all interested delegations, to be chaired by a representative of the Member States, with the task of studying applicable measures, including incentives, to expedite the timely payment of assessed contributions. The group was requested to submit proposals to the Board at its sixteenth session. In consideration of the relevance of the subject to the Programme and Budget Committee, the present report is submitted to that Committee as well as to the Industrial Development Board.

2. Under the Chairmanship of the President of the Board, H.E. Mr. S.K. Lee, Ambassador of the Republic of Korea, the discussion group held three meetings to continue its work. On 13 June 1996, a background paper on the subject prepared by the Secretariat was circulated. This paper formed the basis for discussion in the meeting held on 20 June 1996. At its second meeting held on 2 September 1996, the Chairman established a working group composed of friends from regional groups with the task of preparing a draft report for consideration by the discussion group on 30 September 1996. The draft report would reflect as accurately as possible the main thrust of the discussions. It would include specific proposals emanating from the United Nations system or made by delegations—whether or not consensus prevailed—as well as implications of those proposals.

3. The draft report prepared by the friends was submitted to the open-ended discussion group for its consideration at its meeting on 30 September 1996. The present report thus reflects the discussions of the group on measures to expedite timely payment of assessed contributions for UNIDO.

I. CONSIDERATION OF MEASURES FOR UNIDO

4. During the discussions, a number of measures to expedite timely payments of assessed contributions for UNIDO were considered. In so doing, the group recalled that measures for UNIDO should aim to ensure that late and delayed payments of assessed contributions by Member States are minimized and that the Organization has a stable financial base in order to effectively carry out its mandate.

5. The group also recalled the importance of the negotiations on relevant issues of the High-Level Open-Ended Working Group on the Financial Situation of the United Nations, the meetings of which are ongoing. In that connection, the view was expressed that any viable and lasting solution of the problem of growing arrears should include the reform of the scale of assessment of Member States in order to reflect their actual capacity to pay.

6. A range of views expressed on payment plans, improvement measures and a moratorium on the payment of arrears are described in sections A, B and C below. The group discussed the effectiveness of these measures, including those that promoted timely payments of arrears of assessed contributions rather than measures that tended to penalize Member States, particularly those already considered disadvantaged.

7. Supporting papers, including financial and legal implications of introducing payment plans and incentive schemes, reviewed by the discussion group are contained in the annex to the present document. Position papers submitted by participants are contained in a conference room paper (IDB.16/CRP.2-PBC.12/CRP.2).

A. Payment plans

8. Payment plans, if approved for eligible Member States, would allow for the scheduling of arrears of assessed contributions thereby focusing on the liquidation of outstanding contributions on an annual basis. Payment plans also represent a reaffirmation of Member States to pay their financial obligations. Payment plans have been introduced with some success in other United Nations organizations, including FAO, ICAO, ILO, IMO, ITU, UNESCO, UPU, WHO, WIPO and WMO.

9. While the debate on payment plans was not fully exhausted, some members supported payment plans as an improvement measure under certain criteria and depending on the criteria being consistent with the financial regulations and Constitution of UNIDO. Additional clarification would need to be sought concerning such aspects as conditions for eligibility, restoration of the rights of membership in the Organization, sanctions for non-compliance, starting date and limitation of period for rescheduling of payments, and reporting requirements. Other views were expressed concerning the difficulties of defining technical and circumstantial criteria for payment plans, the desirability to reach countries in the target group, the need to obtain support from all regional groups and the relationship of payment plans to a moratorium on the payment of arrears. It was noted that payment plans tend to address the problem of late payers rather than the need to restore membership status to non-payers.

B. Improvement measures

10. Discussions on measures to improve the collection of assessed contribution income included both incentives for encouraging and recognizing timely payments and disincentives for Members not fulfilling their obligations to pay their contributions in accordance with the financial regulations and Constitution of UNIDO.

Measures included, *inter alia,* incentive schemes, sanctions with respect to the distributions of cash surpluses, implementation of an earlier date for the suspension of voting rights, more or less favourable consideration when awarding contracts or hiring personnel and consultants, criteria for election to posts of responsibility in the policy-making organs and the application of interest penalties on late payments. Any such measures would need to be carefully and fully debated addressing the different categories of early, slow and non-payers and their feasibility within the financial and legal framework of the Organization. The view was expressed that such measures should not be retroactive, i.e. they may not be applied to arrears existing prior to the introduction of such measures. Incentive schemes are used in other organizations, including FAO, ICAO, ILO, IMO, UNESCO, WHO and WMO. Penalty schemes involving the charging of interest are used by ITU and UPU.

11. Some delegates expressed views favouring the timely payment of assessed contributions and the payment of arrears in compliance with their international obligations, thus ensuring active participation in the Organization. The introduction of an incentive scheme was supported by some delegates. However, some did not consider it appropriate to show special treatment for those Members that usually make early payments.

12. Others felt that caution should be exercised in discussing improvement measures for UNIDO in view, in particular, of the special interest of the Organization in least developed countries and the need to encourage these countries to meet their international obligations.

C. Moratorium leading to the writing-off of arrears

13. The idea of a moratorium on arrears of assessed contributions was introduced to the discussion group. The proposed moratorium was on writing-off of arrears of assessed contributions of all developing countries for the period 1986 to 1993 as a way of alleviating their difficulties.

14. The proposal indicated that such a moratorium would be applied only once and would not be quoted as a precedent and would be subject to the following conditions:

(a) That the Member State would effectively settle its assessed contributions for the years 1994, 1995 and 1996 in an agreed payment plan with UNIDO;

(b) Such Member State would commit itself to timely future payments of its assessed contributions and in accordance with the applicable financial regulations.

15. The issue was discussed but did not enjoy the support of other groups. One regional group was of the opinion that the matter should be further considered. Other regional groups and delegations expressed the view that there was no role for this group to address this question.

II. PROPOSAL

16. In recognition of the importance of reaching a consensus of views on as wide a basis as possible with respect to the introduction of applicable measures to expedite timely payment of assessed contributions for UNIDO, the discussion group decided that its views could be expressed through the draft decision below. Delegations felt that, to be effective, any solution would have to be an integrated one, and recommended that the discussion group continue after the sixteenth session of the Board and make its recommendations to the Board at its seventeenth session. The Committee may wish to recommend to the Industrial Development Board the adoption of the following draft decision:

"The Industrial Development Board:

"(a) Takes note of the report of the open-ended discussion group to study applicable measures to expedite timely payment of assessed contributions (IDB.16/.. - PBC.12/..);

"(b) Notes with appreciation the timely payment of assessed contributions made by some Member States;

"(c) Notes with concern that delays in the payment of assessed contributions have significantly hampered the timely and orderly implementation of the programme of work of the Organization;

"(d) Urges all Member States to pay their contributions in accordance with financial regulation 5.5(b) which states that contributions and advances shall be due and payable in full within thirty days of the receipt of the communication of the Director-General, or as of the first day of the calendar year, whichever is later;

"(e) Urges further those Member States in arrears to pay their arrears at the earliest possible date and, if possible, in order to facilitate the cash management of the regular budget, to inform the Director-General promptly of the probable date and amount of payment of the forthcoming contribution;

"(f) Decides that the open-ended discussion group should continue working on the issue of timely payment of assessed contributions, taking into consideration, *inter alia*, proposals and background information provided by the Director-General, and requests the group to report to the Board at its seventeenth session, through the Programme and Budget Committee."

Annex

SUPPORTING PAPERS CIRCULATED TO THE DISCUSSION GROUP

I. INFORMATION ON PAYMENT PLANS, INCLUDING FINANCIAL IMPLICATIONS

Background

1. During the meetings of the working group held on 20 June and 2 September 1996, introduction of payment plans was considered as a measure to expedite the liquidation of arrears of payments. Paragraphs 20 to 24 of the background paper circulated on 13 June 1996 provided information on the scheduling of arrears of assessed contributions. The following information, some of which was extracted from the information note issued on 13 June 1996, elaborates on the introduction of payment plans.

2. The issue of predictability of payment patterns and implementation of programmes should be taken into account while considering approval of payment plans. While it is important that Member States reaffirm their obligation to pay in full and on time, payment of assessed contributions in instalments may be an alternative for Member States meeting certain requirements.

3. UNIDO has to approve acceptable procedures to consider proposals to permit a Member in arrears to vote. The following could form the basis for a UNIDO payment plan agreement.

Model procedure

(a) Any request or proposal that the Conference, the IDB or the PBC should permit a Member that is in arrears in the payment of its contributions to vote in accordance with Article 5.2 of the Constitution of UNIDO shall be decided in the first instance in accordance with the rules of procedure of such organ. In the case of the General Conference it would be rule 91 which essentially follows Article 5.2 of the Constitution. As a procedure, the request would go first to the President/General Committee of the Conference. In the case of the IDB it is rule 50 of the rules of procedure that applies, whereas for the PBC it is rule 42 of the rules of procedure. In the IDB the President/Bureau could deal with such a request in the first instance, whereas in the PBC it could be the Chairman/Bureau.

(b) Pending a decision on the request or proposal by the organ (GC, IDB or PBC), the Member shall not be entitled to vote.

(c) The [President/Chairman] shall submit to the organ a report giving its opinion on the request or proposal.

(d) If the [President/Chairman], having found that the failure to pay is due to conditions beyond the control of the Member, thinks fit to propose to the organ that the Member should nevertheless be permitted to vote in accordance with Article 5.2 of the Constitution, it shall in its report:

(i) Explain the nature of the conditions beyond the Member's control;

(ii) Give an analysis of the financial relations between the Member and the Organization during the preceding 10 years;

(iii) Indicate the measures that should be taken in order to settle the arrears including suspension of financial regulations, as appropriate.

4. Although a decision by an Organ to permit a Member to vote notwithstanding its failure to pay its contribution may not be made conditional on the payment of such arrears, under Article 5.2 of the Constitution, such an Organ is not precluded from inviting the Member to submit proposals or payment plans for the future.

5. In theory, Member States could come forward with proposals for payment plans which depend on their individual circumstances. A payment plan could be developed and proposed for approval by the General Conference. Each individual proposal to find an acceptable solution for the settlement of arrears of contributions due would need to clearly indicate the total contribution and currency due, the number of instalments, the order of the application of contributions received against the annual instalment due, the Working Capital Fund, etc., and affirmation that contributions due for the current and subsequent years will be paid promptly and on a regular basis.

6. The Director-General would, in all cases, report to the organ concerned at each of its regular sessions on the implementation of the decision containing the proposal until all the instalments have been received.

7. The financial implications of introducing payment plans as described in this paper are contained in the following box.

FINANCIAL IMPLICATIONS OF INTRODUCING PAYMENT PLANS

1. Financial regulation 5.5(b) states:

"Contributions and advances shall be due and payable in full within thirty days of the receipt of the communication of the Director-General, referred to in subparagraph (a) above, (subparagraph (a) refers to the contents of the assessment letter) or as of the first day of the calendar year to which it relates, whichever is later. As of 1 January of the following calendar year, the unpaid balance of such contributions and advances shall be considered to be one year in arrears."

2. Experience shows that only a few Member States meet their obligations in accordance with the regulation. Even so, the Organization is normally able to implement its programme of work because of the predictability of payments of the reliable contributors and because of the use of other authorized sources such as the Working Capital Fund. The regulation may need to be suspended in respect of arrears on a case-by-case basis, if payment plans are introduced. Suspending the regulation in general should be avoided since it may encourage other Member States to delay their payments and the predictability of payment patterns would be further disrupted.

4. Under Article 5.2 of the Constitution, any Organ may permit a Member to vote in that Organ if it is satisfied that the failure to pay is due to conditions beyond the control of the Member. The Organ is not precluded from inviting a Member to submit proposals or payment plans for the future.

5. The approval of payment plans for eligible Member States is expected to lead to more predictable payment patterns since payment of assessed contributions in instalments or on a quarterly basis represents an improvement on the information normally available for Member States that pay late. Under a payment plan, a Member State would be required to pay each year the current assessment as well as part of the arrears of assessed contributions. Cash received would affect the cash resource base of the Organization and the surpluses due Member States in a pattern different from the current pattern, due to the change in the application of payments.

II. INFORMATION ON INCENTIVE SCHEMES, INCLUDING FINANCIAL IMPLICATIONS

Background

8. In varying ways, incentive schemes to encourage timely payments are used in other Organizations. In most cases, it is inconclusive whether or not this measure has a direct bearing on improving the collection of assessed contributions. In any case, the awareness of the problem is enhanced. Incentive schemes must be innovative if they are to encourage timely payments and in so doing reach the target group experiencing delays in meeting their financial commitments. Incentive schemes distribute incentive points back to eligible Member States depending on the timing and amount of payments made during a given assessment year. Interest earned on surplus cash balances could be set aside in a special account as a financial incentive directly linked to the incentive points awarded to an eligible Member State.

Eligible Member States

9. Member States should decide whether or not an incentive scheme should apply to early payers and/or late payers. Since incentive points are awarded on a scale, different weights for payments of arrears rather than payments of current assessment may be desirable. For example:

(a) **Early payers** paying current year assessments could be awarded incentive points in accordance with the calculation of incentive points using the "S" curve formula as described in the table below.

(b) **Late payers** paying arrears of contributions could be awarded incentive points based on the same formula, however, the basis for awarding the financial incentive could vary. For instance, since UNIDO should presently focus its collection activity on arrears of contributions, it may be desirable to double the financial incentive for eligible Member States in this category. This variation may encourage and recognize Member States with irregular payment schedules for their efforts to make payments as early as possible.

"S" curve formula

10. An "S" curve formula, which is the tool used in most Organizations with incentive schemes has the advantage of giving comparatively greater incentive to

those Member States paying early in the year while at the same time it still gives some incentives to those paying in the second half of the year. Therefore, the "S" curve provides a combination of initial high incentive and a progressive incentive which would be an attraction to those Members paying later in the year to advance the date of their payments.

11. Incentive points are calculated according to the amount of each contribution paid in and the date of payment. Incentive points would accumulate for each year and be carried forward for the purpose of determining the amount of incentive distribution for each eligible Member State (see table).

Financial implications

12. The financial implications of introducing an incentive scheme as described in this paper are contained in the box below.

FINANCIAL IMPLICATIONS OF INTRODUCING AN INCENTIVE SCHEME

1. With a view to minimizing financial implications on the budget of the Organization, interest earned on surplus cash balances could be set aside in a special incentive account for distribution back to eligible Member States as a financial incentive. Normally, interest earned on surplus cash balances is recorded as miscellaneous income.

2. Incentive schemes appear to be consistent with the overall legal and financial intent of the Constitution of UNIDO and the financial regulations with respect to the payment of contributions. It would be useful for the Director-General to issue a financial rule on incentive schemes clearly indicating the source of funding for the special incentive account.

3. Assuming that an incentive scheme is approved for implementation at the next General Conference, interest earned on projected cash surpluses related to the 1994-1995 biennium could be earmarked for the special incentive account. The distribution would take place, in the form of a credit to the assessment of eligible Member States only after the cash becomes available, perhaps after 1997 or 1998.

CALCULATION OF INCENTIVE POINTS USING "S-CURVE" FORMULA

January			February			March			April			May			June		
Day No.	Date	Points	Day No.	Date	Points	Day No.	Date	Points	Day No.	Date	Points	Day No.	Date	Points	Day No.	Date	Points
1	1	10.00	31	1	9.69	61	1	9.36	91	1	8.95	121	1	8.45	151	1	7.72
2	2	9.98	32	2	9.68	62	2	9.34	92	2	8.94	122	2	8.43	152	2	7.69
3	3	9.97	33	3	9.67	63	3	9.33	93	3	8.92	123	3	8.41	153	3	7.66
4	4	9.96	34	4	9.66	64	4	9.32	94	4	8.91	124	4	8.39	154	4	7.62
5	5	9.95	35	5	9.65	65	5	9.31	95	5	8.89	125	5	8.37	155	5	7.59
6	6	9.94	36	6	9.64	66	6	9.29	96	6	8.88	126	6	8.35	156	6	7.55
7	7	9.93	37	7	9.63	67	7	9.28	97	7	8.86	127	7	8.33	157	7	7.52
8	8	9.92	38	8	9.62	68	8	9.27	98	8	8.85	128	8	8.31	158	8	7.48
9	9	9.92	39	9	9.61	69	9	9.26	99	9	8.83	129	9	8.28	159	9	7.44
10	10	9.91	40	10	9.60	70	10	9.24	100	10	8.82	130	10	8.26	160	10	7.40
11	11	9.90	41	11	9.59	71	11	9.23	101	11	8.80	131	11	8.24	161	11	7.36
12	12	9.89	42	12	9.58	72	12	9.22	102	12	8.78	132	12	8.22	162	12	7.32
13	13	9.88	43	13	9.57	73	13	9.20	103	13	8.77	133	13	8.20	163	13	7.28
14	14	9.87	44	14	9.55	74	14	9.19	104	14	8.75	134	14	8.17	164	14	7.23
15	15	9.86	45	15	9.54	75	15	9.18	105	15	8.73	135	15	8.15	165	15	7.18
16	16	9.85	46	16	9.53	76	16	9.16	106	16	8.72	136	16	8.13	166	16	7.13
17	17	9.84	47	17	9.52	77	17	9.15	107	17	8.70	137	17	8.10	167	17	7.08
18	18	9.83	48	18	9.51	78	18	9.14	108	18	8.68	138	18	8.08	168	18	7.03
19	19	9.82	49	19	9.50	79	19	9.12	109	19	8.67	139	19	8.05	169	19	6.97
20	20	9.81	50	20	9.49	80	20	9.11	110	20	8.65	140	20	8.03	170	20	6.91
21	21	9.80	51	21	9.47	81	21	9.10	111	21	8.63	141	21	8.00	171	21	6.84
22	22	9.79	52	22	9.46	82	22	9.08	112	22	8.61	142	22	7.98	172	22	6.77
23	23	9.78	53	23	9.45	83	23	9.07	113	23	8.60	143	23	7.95	173	23	6.69
24	24	9.77	54	24	9.44	84	24	9.05	114	24	8.58	144	24	7.92	174	24	6.61
25	25	9.76	55	25	9.43	85	25	9.04	115	25	8.56	145	25	7.90	175	25	6.51
26	26	9.75	56	26	9.42	86	26	9.03	116	26	8.54	146	26	7.87	176	26	6.41
27	27	9.74	57	27	9.40	87	27	9.01	117	27	8.52	147	27	7.84	177	27	6.28
28	28	9.73	58	28	9.39	88	28	9.00	118	28	8.50	148	28	7.81	178	28	6.12
29	29	9.72	59	29	9.38	89	29	8.98	119	29	8.49	149	29	7.78	179	29	5.89
30	30/31	9.71	60	-	9.37	90	30/31	8.97	120	30	8.47	150	30/31	7.75	180	30	5.00

CALCULATION OF INCENTIVE POINTS USING "S-CURVE" FORMULA (continued)

July			August			September			October			November			December		
Day No.	Date	Points	Day No.	Date	Points	Day No.	Date	Points	Day No.	Date	Points	Day No.	Date	Points	Day No.	Date	Points
181	1	4.11	211	1	2.22	241	1	1.51	271	1	1.02	301	1	0.62	331	1	0.28
182	2	3.88	212	2	2.19	242	2	1.50	272	2	1.00	302	2	0.61	332	2	0.27
183	3	3.72	213	3	2.16	243	3	1.48	273	3	0.99	303	3	0.60	333	3	0.26
184	4	3.59	214	4	2.13	244	4	1.46	274	4	0.97	304	4	0.58	334	4	0.25
185	5	3.49	215	5	2.10	245	5	1.44	275	5	0.96	305	5	0.57	335	5	0.24
186	6	3.39	216	6	2.08	246	6	1.42	276	6	0.95	306	6	0.56	336	6	0.23
187	7	3.31	217	7	2.05	247	7	1.40	277	7	0.93	307	7	0.55	337	7	0.22
188	8	3.23	218	8	2.02	248	8	1.39	278	8	0.92	308	8	0.54	338	8	0.21
189	9	3.16	219	9	2.00	249	9	1.37	279	9	0.90	309	9	0.53	339	9	0.20
190	10	3.09	220	10	1.97	250	10	1.35	280	10	0.89	310	10	0.51	340	10	0.19
191	11	3.03	221	11	1.95	251	11	1.33	281	11	0.88	311	11	0.50	341	11	0.18
192	12	2.97	222	12	1.92	252	12	1.32	282	12	0.86	312	12	0.49	342	12	0.17
193	13	2.92	223	13	1.90	253	13	1.30	283	13	0.85	313	13	0.48	343	13	0.16
194	14	2.87	224	14	1.87	254	14	1.28	284	14	0.84	314	14	0.47	344	14	0.15
195	15	2.82	225	15	1.85	255	15	1.27	285	15	0.82	315	15	0.46	345	15	0.14
196	16	2.77	226	16	1.83	256	16	1.25	286	16	0.81	316	16	0.45	346	16	0.13
197	17	2.72	227	17	1.80	257	17	1.23	287	17	0.80	317	17	0.43	347	17	0.12
198	18	2.68	228	18	1.78	258	18	1.22	288	18	0.78	318	18	0.42	348	18	0.11
199	19	2.64	229	19	1.76	259	19	1.20	289	19	0.77	319	19	0.41	349	19	0.10
200	20	2.60	230	20	1.74	260	20	1.18	290	20	0.76	320	20	0.40	350	20	0.09
201	21	2.56	231	21	1.72	261	21	1.17	291	21	0.74	321	21	0.39	351	21	0.08
202	22	2.52	232	22	1.69	262	22	1.15	292	22	0.73	322	22	0.38	352	22	0.08
203	23	2.48	233	23	1.67	263	23	1.14	293	23	0.72	323	23	0.37	353	23	0.07
204	24	2.45	234	24	1.65	264	24	1.12	294	24	0.71	324	24	0.36	354	24	0.06
205	25	2.41	235	25	1.63	265	25	1.11	295	25	0.69	325	25	0.35	355	25	0.05
206	26	2.38	236	26	1.61	266	26	1.09	296	26	0.68	326	26	0.34	356	26	0.04
207	27	2.34	237	27	1.59	267	27	1.08	297	27	0.67	327	27	0.33	357	27	0.03
208	28	2.31	238	28	1.57	268	28	1.06	298	28	0.66	328	28	0.32	358	28	0.02
209	29	2.28	239	29	1.55	269	29	1.05	299	29	0.64	329	29	0.31	359	29	0.01
210	30/31	2.25	240	30/31	1.53	270	30	1.03	300	30/31	0.63	330	30	0.29	360	30/31	0.00